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SUBJECT: BOTSWANA ECONOMIC BRIEFS JUNE 2009

¶1. This is the sixth edition of U.S. Embassy Gaborone's Botswana Economic Briefs, covering economic and commercial news from June 2009. Topics of this edition are:

- Major Copper /Silver Pipeline for Ghanzi
- Botswana Remains Optimistic About SACU
- Botswana Economy to Shrink - IMF
- Government Approves NDP 10 Budget
- Botswana encourages Singapore Investors

Major Copper /Silver Pipeline for Ghanzi

¶2. The Ghanzi area could soon become a mining center after discovery of a copper and silver pipeline. The discovery was made by the Canadian mineral exploration company, Hana Mining. The CEO of the company Mr. Marek Kreczmer, said results showed that the area has over 2.9 billion tons of copper and 51 million ounces of silver, showing a good potential for investment. He said Hana Mining has spent P 30 million (US\$ 4.3 million) on drilling that started 18 months ago and this could be the largest mine in Botswana as it was an extension of the neighboring country, Zambia copper belt.

¶3. During the year the Hana mining company will be involved in economic analysis, metallurgical study, infrastructure study, power study and will continue with the resource drilling into 2010. The prefeasibility which normally take about 12 months, will start in the coming year, from which a 24 months feasibility study will be undertaken, which suggests that the mine construction could start in 2014/2015.

¶4. The Deputy Permanent Secretary in the Ministry of Minerals, Energy and Water Resources, Mr. Jacob Thamaga has suggested that in order to raise funds, the company should get a listing with the Botswana Stock Exchange (BSE). In terms of infrastructure, the company is relying on a power station which is due to be ready in 2012, the new Trans Kalahari Highway and the proposed railway line which will pass within 10 kilometers of the projected area. Comment: The Ghanzi area is poor and remote, on the edge of the Kalahari desert, with few job prospects for its residents. If this new mineral find proves viable, it could provide an important source of economic development and job creation for the region. End Comment.(Daily News, June 11, 2009).

Botswana Remains Optimistic About SACU

¶5. Following the recently signed Interim Economic Partnership Agreement (IEPA) between Botswana, Lesotho, Mozambique and Swaziland (Southern African Customs Union members) and the European Union (EU), Botswana expects that South Africa will cooperate with her and not tighten the trade barriers. Immediately after the signing there were reports that South Africa (the biggest economy in Southern Africa) intends to tighten trade barriers with the countries, by among others, hiking import tariffs on goods passing

through her because the said countries allegedly broke ranks in signing the IEPA with the EU.

¶16. The spokesperson for Ministry of Trade and Industry, Ms. Baaitse said when South Africa negotiated its Trade Development Cooperation Agreement (TDCA) with the EU, the rest of the SACU except Namibia, supported it despite the economic losses that came with it. Botswana therefore expects the same cooperation from South Africa under the IEPA. S he said it would be unfair to suggest that countries that signed the IEPA broke ranks because prior to signing the agreement, ministers of Trade for SADC IEPA had agreed that those countries that were not ready should not stand in the way of those who want to sign. The Cotonou Agreement, which governed trade between the African, Caribbean and Pacific (ACP) countries, expired in December 2007 leaving countries such as Botswana without a choice but to sign the IEPA in order not to lose market access in the EU. The IEPA will guarantee the members broader market access at highly competitive prices. (Botswana Daily News, June 23rd 2009)

#### Botswana Economy to Shrink - IMF

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¶17. A recent forecast by the IMF indicated that the economy of Botswana would experience a steep -10.4 percent real GDP growth in ¶2009. Mining, which is the largest sector of the economy, produces half of what it produced last year. According to economist Keith Jefferies this means Botswana is technically in a recession. The IMF projections came as a result of contraction in the mining sector, especially in the diamonds market which constitutes about a third of Botswana's GDP. Jeffries said even if the diamond market recovered now, the Botswana economy was not likely to see the

GABORONE 00000566 002 OF 002

positive growth similar to what was experienced in the last three years until 2011.

¶18. Botswana, which experienced a healthy export growth since the devaluation in 2004, is now running a large trade deficit. Mr. Jeffries said there was no need to panic because despite the fall in foreign reserves, the import cover is still sufficient for at least 20 months. He said the good news was that the IMF also projected a 14 percent positive growth by 2010 if diamonds prices picked up. Also encouraging was the 8 percent growth registered by the non-mining sector in 2008 and was still projected to grow, driven by the Government spending. He proposed a "long-term fiscal squeeze" as an appropriate response to the budget deficit which, at 11 percent of GDP, is the largest in SADC. Decreasing inflation was also a plus for the economy because it meant interest rates would eventually go down. (Mmegi, Business Week, June 12, 2009)

#### Government Approves NDP 10 Budget

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¶19. The Minister of Finance and Development Planning (MFDP), Mr. Baledzi Gaolathe is soon to present the National Development Plan (NDP) 10 to Parliament. The Government has finally approved a P245.6 billion (US\$35.1 billion) budget for NDP 10 as the country seeks to shake off the effects of the global financial crisis and press ahead with its development program. Of the total budget that was approved by cabinet, P32 billion (US\$4.58 billion) will be a deficit, which the MFDP is hoping to finance through borrowings from either domestic or external markets. The MFDP has to make certain that the deficit does not exceed 40 percent of GDP as stipulated by the fiscal rule. The remainder of the budget will be financed from internally-generated funds, which include minerals, customs, VAT and income tax revenues.

¶10. The Acting Permanent Secretary of MFDP Mr. Nyamadzabo said some projects have been affected and respective Ministries have had to defer or downsize on certain projects, but no major projects have been affected. He said they are still going ahead with major projects such as the Morupule B Power Station, expansion of main airports, and the Integrated Support Program for Arable Agriculture Development (ISPAAD). He said labor-intensive poverty alleviation public works will also not be abandoned. The Government has cut or downsized development projects under the 2009/2010 budget due to a fall in revenues, but critical projects will go ahead as planned. This is clearly reflected in the drastic decline in the number of

tenders being approved by the Public Procurement and Asset Disposal Board (PPADB). (Mmegi Business Week, June 19, 2009)

#### Botswana encourages Singapore Investors

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¶11. The Botswana Export and Development Investment Authority (BEDIA) and the Singapore Business Federation (SBF) recently signed a Memorandum of Understanding (MOU) that will facilitate trade and investment between the two countries. The chairperson of SBF Mr Tony Chew said trade between Botswana and Singapore increased from US\$ 14 million in 2006 to US\$ 27 million in 2008. According to Mr. Chew this placed Botswana as Singapore's 150th trading partner in 2008, and he urged the Singapore companies to tap into Botswana's business links expertise, since the country has access to economic blocs in Southern Africa such as SADC and SACU. The CEO of BEDIA Ms. Dorcas Makgatho-Malesu assured Singapore investors of liberal tax regime of 15 percent and 25 percent tax to corporate and personal respectively. In her invitation Ms Makgatho-Malesu said Botswana was a conducive investment environment, with the country being the most transparent, least corrupt in Africa as stated by the Transparency International. Botswana is willing to develop new industries of global standards particularly in the field of tourism, health care, education and financial services. These happen to be sectors that Singapore is traditionally strong at and through the MOU there will be scope for collaboration between the two countries.

Both countries are strong advocates of good governance and there has been close cooperation in this area for nearly two decades. In 1993, Singapore helped the Botswana Government set up the National Productivity Centre (BNPC), which is now the leading productivity center in the country. (Daily News, June 24, 2009)

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